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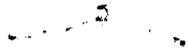
Fact Sheet to the Chairman of the  
Subcommittee on Health, House  
Committee on Ways and Means

October 1985

**TAX  
ADMINISTRATION**

**Information on How the  
Property/Casualty  
Insurance Industry Is  
Taxed**

128355



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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

October 16, 1985

GENERAL GOVERNMENT  
DIVISION

B-220675

The Honorable Fortney "Pete" Stark  
Chairman, Subcommittee on Health  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

Subject: Information On How The Property/Casualty  
Insurance Industry Is Taxed (GAO/GGD-86-16FS)

Enclosed are 21 charts containing information on the taxation of the property/casualty insurance industry. We developed the charts in response to your request during our testimony on the subject before the Committee on Ways and Means on July 19, 1985. The charts also supplement a number of briefings given to you and your staff during the month of September 1985.

The information provided by these charts cover numerous facets of the industry, including the industry's current tax situation, market share held by top company groups within the industry, and expected taxes generated by various revenue proposals. The data used to construct these charts came entirely from publicly available information. We did not discuss our arrays of the data with industry representatives.

We hope you will find this information useful in considering the many issues involved in reforming taxation of the property/casualty insurance industry. As agreed with your staff, we will make this information available to other interested parties upon request. If you or your staff have any further questions regarding the charts, please contact Mr. Natwar Gandhi of my staff on 376-0023.

Sincerely yours,

A handwritten signature in cursive script that reads "Johnny C. Finch".

Johnny C. Finch  
Senior Associate Director

Enclosures - 21

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### Objectives, scope and methodology

Congressman Stark asked us to provide information concerning the property/casualty (p/c) insurance industry with regard to taxation. We were also asked to analyze five revenue proposals for expected taxes generated.

We were able to provide the information and analysis requested by using publicly available information. Our sources included (1) statements required to be filed by property/casualty insurance companies licensed in the District of Columbia and (2) A.M. Best's reference publications and service.

Our work was conducted from July 1985 to September 1985 and was performed in accordance with generally accepted government auditing standards.

Chart 1

Financial Profile of the  
Property/Casualty Insurance Industry

Profile for 1773 Property/Casualty Companies -  
Consolidated Industry Totals

° total industry net premiums written \$118.6 billion

° total industry assets \$264.7 billion

46 Largest Groups (measured by net premiums written)  
(71% of p/c industry net premiums)

° 31 had negative income taxes - total, (\$1,664) million

° 11 had positive income taxes - total, \$153 million

° 4 had zero income taxes

31 "Negative Income Tax" Groups (measured by net premiums  
written)

(60% of p/c industry net premiums)

° 8 were subsidiaries of non-insurance parent companies (had  
non-insurance parents) - tax, (\$875) million

° 23 were purely p/c companies or had life insurance company  
affiliates (stand alone) - tax, (\$789) million

20 Largest Groups (measured by net premiums written)  
(53% of p/c industry net premiums)

° 6 had non-insurance parents - tax, (\$726) million  
(15% of p/c industry net premiums)

° 14 were stand alone companies or had life insurance  
company affiliates - tax, (\$537) million

Chart 2

All P/C Companies - Consolidated Basis  
Net Gains vs. Federal Income Tax Paid  
1975 through 1984  
(in billions of dollars)

<u>Underwriting</u> <u>gains (loss)</u>	<u>Investment</u> <u>gains</u>	<u>Net</u> <u>gains</u>	<u>Federal</u> <u>income</u> <u>tax</u>	<u>Percentage of</u> <u>federal income</u> <u>tax to</u> <u>net gains</u>
(\$45.8)	\$121.0	\$75.2	(\$0.125)	(0.2)

Chart 3

All P/C Companies - Consolidated Basis  
Increase in Surplus and Dividends to  
Stockholders vs. Federal Income Tax Paid  
1975 through 1984  
(in billions of dollars)

<u>Increase in</u> <u>surplus</u>	<u>Dividends to</u> <u>stockholders</u>	<u>Total</u>	Federal income <u>tax</u>	Percentage of federal income <u>tax to total</u>
\$47.8	\$18.5	\$66.3	(\$0.125)	(0.2)

Chart 4

P/C Company Advantages

Tax Advantages

Conservative statement of income due to statutory reporting practices instituted by National Association of Insurance Commissioners (N.A.I.C.)

Consistent Tax Deferral:

--Time value of money ignored in calculating reserve deduction.

--Acquisition expenses deducted upfront.

Cash Flow Advantages

Net cash flow for p/c industry in 1983 was \$12.8 billion.

Top 20 companies (measured by net premiums written) had net cash flow of \$6.1 billion.

Six of the top 20 companies which had a non-insurance parent had net cash flow of \$1.8 billion.

Chart 5

Percentage of Industry Premiums vs. Federal Income  
Taxes Paid for Twenty Largest P/C Groups - 1984  
(in millions of dollars)

	<u>Number</u>	<u>Percentage of</u> <u>industry premiums</u>	<u>Federal</u> <u>income tax</u>
With non-insurance parent company	6	15%	(\$726.5)
Others	<u>14</u>	<u>38%</u>	<u>(536.6)</u>
Totals	<u>20</u>	<u>53%</u>	<u>(\$1,263.1)</u>

Chart 6

Carryback and Carryforward Statistics  
For Twenty-nine Large P/C Company Groups  
As of 12/31/84  
(in millions of dollars)

	<u>Carryback</u>	<u>Carryforward</u>	<u>Carrybacks and Carryforwards</u>
6 of Top 20 Company Groups With Non-Insurance Parent	\$ 0	\$631.8	\$631.8
14 Stand-Alone of Top 20 Company Groups	142.9	3,875.5	4,018.4
	-----	-----	-----
Total Top 20 Company Groups*	\$142.9	\$4,507.3	\$4,650.2
9 Additional Large Company Groups for which data was available	45.9	1,136.4	1,182.4
	-----	-----	-----
Total-29 Company Groups**	<u>\$188.8</u>	<u>\$5,643.8</u>	<u>\$5,832.6</u>

\*Based on Net Premiums Written in 1983

\*\*These Company Groups represented 62% of the industry measured by net premiums written in 1983

Chart 7

Market Share and Assets for Six P/C Companies\*  
With Non-Insurance Parent  
(in billions of dollars)

<u>Rank**</u>	<u>Insurance Group</u>			<u>Parent Company</u>	
	<u>Market Share**</u>	<u>Assets As of 12/31/83</u>	<u>Assets as Percentage of Parent</u>		<u>Assets as of 12/31/83</u>
(2) Allstate	5.70%	\$10.640	23%	Sears	\$46.176
(9) Fireman's Fund	2.44	5.645	13	American Express	43.981
(10) Hartford	2.35	6.744	48	I.T.T.	13.967
(13) Crum & Forster	1.71	4.067	44	Xerox	9.297
(17) Home	1.42	3.888	47	City Invest.	8.361
(18) CNA	<u>1.39</u>	<u>5.810</u>	<u>50</u>	Loews	<u>11.510</u>
Total	<u>15.01%</u>	<u>\$36.794***</u>	<u>28%</u>		<u>\$133.292</u>

\* The six companies shown are those in the top 20

\*\* Based on net premiums written in 1983

\*\*\* This is 14.8% of the p/c industry total

Chart 8

Market Share and Assets for Fourteen  
Stand Alone P/C Companies\*  
(in billions of dollars)

<u>Rank**</u>		<u>Market</u> <u>Share**</u>	<u>Assets</u> <u>as of 12/31/83</u>
(1)	State Farm	9.83%	\$18.340
(3)	Aetna Life & Casualty	4.04	13.038
(4)	CIGNA	3.09	9.729
(5)	Farmers Insurance	2.83	4.587
(6)	Travelers	2.82	29.144
(7)	Liberty Mutual	2.59	7.761
(8)	Continental	2.47	6.260
(11)	Nationwide	2.27	4.631
(12)	USF & G	1.81	4.261
(14)	St. Paul	1.60	4.197
(15)	Amer. International	1.58	4.489
(16)	Kemper	1.54	4.354
(19)	Chubb	1.26	2.773
(20)	Commercial Union	<u>1.24</u>	<u>2.488</u>
	Total	<u>38.97%</u>	<u>\$116.052***</u>

\* The 14 companies shown are those in the top 20

\*\* Based on net premiums written in 1983

\*\*\* This is 46.6% of the p/c industry total

Chart 9

Underwriting Gains, Investment Gains,  
Total Gains and Federal Income Taxes  
Paid for Six P/C Company Groups With  
Non-Insurance Parents  
1980 Through 1984  
(in millions of dollars)

	<u>Underwriting Gain</u>	<u>Investment Gain</u>	<u>Total Gains</u>	<u>Federal Income Tax</u>
Allstate	(\$1,594)	\$3,521	\$1,928	(\$530)
Fireman's Fund	(1,461)	2,176	715	(489)
Hartford	(1,478)	2,871	1,393	(622)
Crum & Forster	(1,015)	1,452	437	(27.4)
Home	(1,460)	1,910	450	(69)
CNA	<u>(1,344)</u>	<u>1,642</u>	<u>288</u>	<u>(49)</u>
Total*	<u>(\$8,352)</u>	<u>\$13,572</u>	<u>\$5,221</u>	<u>(\$1,786)</u>

\*Differences in totals due to rounding

Chart 10

Comparative Growth of Twenty Largest P/C  
Company Groups  
As a Percent of Market Share

6 P/C Company Groups  
Non-Insurance Parent  
Market Share\*

<u>1973</u>	<u>1983</u>	<u>Change</u>
17.65%	15.00%	(2.65%)

14 P/C Company Groups  
Stand Alone  
Market Share\*

<u>1973</u>	<u>1983</u>	<u>Change</u>
36.51%	38.95%	2.44%

5 P/C Company Groups  
Non-Insurance Parent\*\*  
Market Share\*

<u>1973</u>	<u>1983</u>	<u>Change</u>
12.04%	9.30%	(2.74%)

13 P/C Company Groups  
Stand Alone\*\*  
Market Share\*

<u>1973</u>	<u>1983</u>	<u>Change</u>
30.20%	29.13%	(1.07%)

\* Measured by net premiums written

\*\* Excluding Allstate from 6 companies and excluding State Farm from 14 companies

Chart 11

Net Income After Policyholder Dividends  
As a Percentage of Owners' Equity for  
20 Largest P/C Company Groups\*  
(in millions of dollars)

Combined Years 1982 and 1983

	<u>6 Company</u> <u>Groups (1)</u>	<u>14 Company</u> <u>Groups (2)</u>	<u>20 Company</u> <u>Groups</u>
Net Income	\$891	\$2,642	\$3,533
Mean Owners' Equity	\$14,636	\$45,501	\$60,137
Percentage of Rate Return on Owners' Equity	6.1%	5.8%	5.9%

\*Based on Net Premiums Written as of 12/31/83

- (1) These 6 of the top 20 p/c company groups have a non-insurance parent
- (2) These 14 of the top 20 p/c company groups stand alone or have a life insurance company affiliation

Chart 12

Tax Exempt Investments  
As a Percentage of Total Assets  
for 20 Largest P/C Company Groups\*

	<u>As of</u> <u>12/31/79</u>	<u>As of</u> <u>12/31/84</u>	<u>Change</u> <u>From '79 to '84</u>
6 Non-Insurance Parent Company Groups	42.3%	36.7%	-5.6%
14 Stand Alone or - Life Insurance Company Affiliates	41.5%	30.8%	-10.7%
20 Company Groups	41.7%	32.5%	-9.2%

\*Based on Net Premiums Written as of 12/31/83

## Chart 13

### Consolidation Legislation

- 1928 - Prohibited consolidation of insurance companies (Life and P/C) with non-insurance companies
- 1932 - Prohibited consolidation of P/C and Life companies
- 1934 - Prohibited consolidation of returns of all corporations except railroads
- 1940 - Consolidations again permitted - except no consolidations of insurance companies with other types of insurance companies or non-insurance companies
- 1941 - Provisions were amended to permit consolidation by P/C insurers for purposes of the excess profits tax
- 1942 - P/C companies permitted to consolidate with non-insurance companies for the regular income tax as well as the excess profits tax
- 1976 - Permitted life insurance companies to consolidate - limited the ability of an affiliated group to use non-life losses to reduce taxes on life insurance income and imposed a five year affiliation requirement

Chart 14

Proposals for P/C Company Taxes\*

1. Premium Tax - 1% of Direct Premiums Written less Dividends to Policyholders
2. Revenue Offset Proposal - Add to Income 20% of Unearned Premiums (4% first year, 8% second year, etc)
3. Underwriting Loss Suspense Account - Suspend deductions that create underwriting losses until such losses are paid
4. Greater of 1% premium tax as in (1) or 20% of statutory "net income after dividends to policyholders but before federal and foreign income taxes" i.e. 20% of line 18(b) page 4 found in the statement each company is required to file with the Department of Insurance in the states in which they are licensed
5. Lesser of 1% premium tax or 20% of line 18(b) page 4

\*Congressman Stark asked us to generate revenue estimates using these proposals. The estimate for each proposal is shown on charts 15 through 19 respectively. The estimates for all of the proposals are summarized on chart 20.

Chart 15

Proposal 1 - 1% Premium Tax  
(in millions of dollars)

	1984 Base - Direct premiums written less dividends to <u>policyholders</u>	<u>1% Tax</u> on 1984 <u>Premiums</u>	<u>1% Tax on</u> 1986 Estimated <u>Premiums</u>	<u>Actual 1984</u> <u>Tax</u>
20 Largest Company Groups	\$68,610	\$686	\$803	(\$1,263)
<u>INDUSTRY</u>	\$121,997	\$1,220	\$1,427	(\$1,732)

Note: See Chart 14

Chart 16

Proposal 2 - Revenue Offset Proposal  
(in millions of dollars)

	<u>1984</u> <u>Unearned</u> <u>Premiums</u>	<u>4% of 1984</u> <u>Unearned</u> <u>Premium</u>	<u>1984 Addi-</u> <u>tional Taxes</u> <u>Proposal 2</u>	<u>Actual</u> <u>1984</u> <u>Taxes</u>	<u>1984 Total</u> <u>Taxes as</u> <u>Changed by</u> <u>Proposal 2</u>
20 Largest Company Groups	\$23,558	\$942	\$433-46% \$311-33%	(\$1,263) (\$906)*	(\$830)-46% (\$595)-33%
INDUSTRY	\$45,499	\$1,820	\$837-46% \$601-33%	(\$1,732) (\$1,243)*	(\$895)-46% (\$642)-33%

\*Estimated taxes in 1984 if 33% had been the corporate tax rate

Note: See Chart 14

Chart 17

Proposal 3 - Underwriting Loss Suspense Account  
(in millions of dollars)

	<u>1984 Underwriting Gains</u>	<u>1984 Additional Taxes Proposal 3</u>	<u>Actual 1984 Taxes</u>	<u>1984 Total Taxes as Changed by Proposal 3</u>
20 Largest Company Groups	(\$10,523)	\$4,841-46% \$3,473-33%	(\$1,263) (\$906)*	\$3,578-46% \$2,567-33%
INDUSTRY	(\$19,379)	\$8,914-46% \$6,395-33%	(\$1,732) (\$1,243)*	\$7,182-46% \$5,152-33%

\*Estimated taxes in 1984 if 33% had been the corporate tax rate

Note: See Chart 14

Chart 18

Proposal 4 - Greater of 1% Premium Tax  
or 20% of Statutory Net Income after  
Dividends to Policyholders  
(in millions of dollars)

	<u>1984 1% Premium Tax (P.T.)</u>	<u>1984 20% Statutory Net Income (S.N.I.)</u>	<u>1984 Greater of 1% P.T. or 20% S.N.I.</u>
20 Largest Company Groups	\$686	(\$33)	\$739
INDUSTRY	\$1,220	(\$179)	\$1,320*

\*Estimated

Note: See Chart 14

Chart 19

Proposal 5 - Lesser of 1% Premium Tax or  
20% of Statutory Net Income After  
Dividends to Policyholders  
(in millions of dollars)

	<u>1984 1% Premium Tax (P.T.)</u>	<u>1984 20% Stat. Net Income (S.N.I.)</u>	<u>1984 Lesser of 1% P.T. or 20% S.N.I.**</u>
20 Largest Company Groups	\$686	(\$33)	\$300
INDUSTRY	\$1,220	(\$179)	\$400*

\*Estimated

\*\*But not less than zero

Note: See Chart 14

Chart 20

Summary Comparison of Taxes  
Under Five P/C Tax Proposals  
Tax Year 1984  
(in millions of dollars)

	<u>1% Premium</u> <u>Tax</u>	<u>Revenue</u> <u>Offset (20%</u> <u>Unearned</u> <u>Premium)</u>	<u>Underwriting</u> <u>Loss Suspense</u> <u>Account</u>	<u>Greater of 1%</u> <u>Prem. Tax</u> <u>or 20% Stat.</u> <u>Net Income</u>	<u>Lesser of</u> <u>1% Prem.</u> <u>Tax or 20%</u> <u>Stat. Net</u> <u>Income**</u>
20 Largest -Company Groups	\$686	(\$830)-46% (\$595)-33%	\$3,578-46% \$2,567-33%	\$739	\$300
INDUSTRY	\$1,220	(\$895)-46% (\$642)-33%	\$7,182-46% \$5,152-33%	\$1,320*	\$400*

\*Estimated

\*\*But not less than zero

Note: See Chart 14 for explanation of proposals

Chart 21

Comparison of Taxes Under Five P/C Tax Proposals  
for Twenty Largest Company Groups\*

Tax Year 1984

(in million of dollars)

	Proposal <u>1</u>	Proposal <u>2**</u>	Proposal <u>3**</u>	Proposal <u>4</u>	Proposal <u>5</u>	Actual Taxes Paid
State Farm	\$119	\$54	\$228	\$159	\$119	(\$26)
Allstate	71	(121)	69	71	67	(165)
Aetna	42	(57)	354	53	42	(82)
Travelers	37	(99)	207	37	0	(119)
CIGNA	43	(201)	403	43	0	(230)
Farmers	35	(42)	82	35	0	(62)
Liberty Mutual	28	12	231	28	0	(3)
Fireman's Fund	31	(228)	140	31	0	(250)
Nationwide	25	14	91	25	15	(2)
Hartford	32	(209)	58	32	0	(228)
Amer. Inter.	48	(51)	32	48	11	(69)
Continental	29	48	235	30	29	29
USF & G	23	14	241	23	0	(3)
Crum & Forster	25	4	245	25	0	(10)
St. Paul	21	19	280	21	0	3
CNA	19	13	241	19	0	(3)
Home	18	(59)	184	18	0	(71)
Chubb	18	15	75	18	2	2
Amer. Financial	14	38	174	14	11	28
USAA	<u>12</u>	<u>5</u>	<u>6</u>	<u>12</u>	<u>4</u>	<u>(3)</u>
Totals***	<u>\$686</u>	<u>(\$830)</u>	<u>\$3,578</u>	<u>\$739</u>	<u>\$300</u>	<u>(\$1,263)</u>

\*Based on Net Premiums Written as of 12/31/84

\*\*Assuming a corporate tax rate of 46%

\*\*\*Differences in totals due to rounding

Note: See Chart 14 for explanation of proposals

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